Lepelle Nkumpi Municipality
Annual Financial Statements
for the year ended 30 June 2018

# Accounting Policies

### 1.34 Investments in associates (continued)

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

# Accounting Policies

### 1.34 Investments in associates (continued)

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.35 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.36 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

## Accounting Policies

### 1.36 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the  formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.37 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

# Accounting Policies

### 1.38 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.39 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

### 1.39 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Accounting Policies

### 1.39 Provisions and contingencies (continued)

**Levies**

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

### 1.40 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 5 195 | 12 562 |
| FNB paymaster account | 4 709 941 | 5 208 067 |
| Call deposits | 46 911 313 | 173 151 390 |
| FNB revenue account | 5 270 319 | 8 450 748 |
| FNB salaries account | 1 532 756 | 592 274 |
| VBS Mutual bank 3 months | 50 000 000 | - |
| VBS mutual bank 12 Months | 100 000 000 | - |
| | **208 429 524** | **187 415 041** |
| Less : provision of Bad debts VBS Bank | (150 000 000) | - |
| | **58 429 524** | **187 412 957** |

The municipality has made provision for bad debts of the VBS bank because of the uncertainty of the recovery of the investment.

The municipality has the following bank accounts:

### 3.1 Paymaster General Account

| | | |
|---|---|---|
| Cash book balance at beginning of year | 5 208 067 | 456 417 |
| Cash book balance at the end of the period | 4 709 941 | 5 208 067 |
| Bank statement at the beginning of the year | 5 220 374 | 477 283 |
| Bank statement at the end of the year | 4 645 909 | 5 220 374 |

### 3.2 Revenue Account

| | | |
|---|---|---|
| Cash book balance at beginning of year | 8 448 664 | 543 117 |
| Cash book balance at the end of the year | 5 270 319 | 8 448 664 |
| Bank statement at the beginning of the year | 8 430 288 | 551 182 |
| Bank statement at the end of the year | 5 070 241 | 8 430 288 |

### 3.3 Salaries Account

| | | |
|---|---|---|
| Cash book balance at beginning of year | 592 274 | 694 248 |
| Cash book balance at the end of the year | 1 532 756 | 592 274 |
| Bank statement at the beginning of the year | 592 274 | 694 248 |
| Bank statement at the end of the year | 1 532 756 | 592 274 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 3. Cash and cash equivalents (continued)

### 3.4 Money Market Account

| | | |
| --- | --- | --- |
| Cash book balance at beginning of year | 173 151 390 | 254 900 520 |
| Cash book balance at the end of the year | 46 911 313 | 173 151 390 |
| Bank statement at the beginning of the year | 172 984 522 | 254 713 758 |
| Bank statement at the end of the year | 46 869 114 | 172 984 522 |

### 3.5 VBS 3months Account

| | | |
| --- | --- | --- |
| Cash book balance at the end of the year | 50 000 000 | - |
| Less : Provision for impairment | (50 000 000) | |
| Bank statement at the end of the year | 51 435 340 | - |

### 3.6 VBS 12months Account

| | | |
| --- | --- | --- |
| Cash book balance at the end of the year | 100 000 000 | - |
| Less : Provision for impairment | (100 000 000) | |
| Bank statement at the end of the year | 103 908 484 | - |

### 3.7 Cash on hand

| | | |
| --- | --- | --- |
| Cash book balance at beginning of year | 5 195 | 12 562 |
| | **5 195** | **12 562** |

Cash and cash equivalents are classified as financial instruments under the loans and receivable category. Due to the short term nature of these investments no amortisation was performed. No cash and cash equivalents (or portions thereof) were pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash and no portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

### 4. Receivables from exchange transactions

| | | |
| --- | --- | --- |
| Sundry Debtors | 4 641 748 | 4 720 184 |
| Revenue bank suspense | 1 055 | - |
| CDM Advance commission | 11 239 032 | 11 665 944 |
| Grants debtors | 994 163 | - |
| Consumer debtors - Refuse | 14 041 632 | 19 244 405 |
| | **30 917 630** | **35 630 533** |

**Refuse - Ageing**

| | | |
| --- | --- | --- |
| Current (0 -30 days) | 3 269 026 | 2 984 101 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 4. Receivables from exchange transactions (continued)

| | | |
|---|---|---|
| 31 - 60 days | 1 485 091 | 1 295 548 |
| 61 - 90 days | 1 445 651 | 1 243 555 |
| 91 - 120 days | 1 417 770 | 1 289 286 |
| 121 - 365 days | 8 936 380 | 9 234 343 |
| > 365 days | 46 796 391 | 42 307 143 |
| | **63 350 309** | **58 353 976** |

**Reconciliation of allowance for impairment**

| | | |
|---|---|---|
| Balance at beginning of the year | (39 109 571) | (29 236 689) |
| Contributions to allowance | (10 199 106) | (9 872 882) |
| | **(49 308 677)** | **(39 109 571)** |

### 5. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Fines | 2 462 518 | 2 271 386 |
| Consumer Debtors - Rates | 99 842 067 | 86 000 342 |
| Plus Credit Debtor Balances - Refer to note | 2 884 895 | 3 574 092 |
| Less: Provision for Doubtful Debts | (66 491 330) | (60 956 002) |
| | **38 698 150** | **30 889 818** |

**Rates - Ageing**

| | | |
|---|---|---|
| Current (0 -30 days) | 3 862 054 | 3 602 607 |
| 31 - 60 days | 1 659 276 | 1 733 384 |
| 61 - 90 days | 1 647 645 | 1 592 451 |
| 91 - 120 days | 1 643 091 | 1 591 060 |
| 121 - 365 days | 12 788 156 | 12 244 628 |
| > 365 days | 81 126 740 | 68 810 303 |
| | **102 726 962** | **89 574 433** |

**Reconciliation of allowance for impairment - Rates**

| | | |
|---|---|---|
| Balance at beginning of the year | (60 956 002) | (48 681 886) |
| Contributions to allowance | (5 535 328) | (12 274 116) |
| | - | - |
| Reversal of allowance | - | - |
| | **(66 491 330)** | **(60 956 002)** |

| | | |
|---|---|---|
| Traffic Fines | 11 831 957 | 11 354 127 |
| Less: Provision for Doubtful Debts | (9 369 439) | (9 082 741) |
| | **2 462 518** | **2 271 386** |

**Reconciliation of allowance for impairment - Traffic Fines**

| | | |
|---|---|---|
| Balance at beginning of the year | (9 082 741) | (6 936 765) |
| Contributions to allowance | (286 698) | (2 145 976) |
| | - | - |
| Reversal of allowance | - | - |
| | **(9 369 439)** | **(9 082 741)** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 5. Receivables from non-exchange transactions (continued)

**Reconciliation of the doubtful debt provision**

| | | |
|---|---|---|
| Opening balance | 100 065 573 | 77 918 576 |
| Provision for impairment | 15 734 434 | 22 146 997 |
| | **115 800 007** | **100 065 573** |

**Trade and other receivables past due but not impaired**

**Consumer debtors pledged as security**

Consumer debtors were not pledged as security for overdraft facilities.

**Consumer debtors impaired**

The amount of the provision was R 115 800 007 as at June 2018. (2017: R 100 065 573)

**Interest Raised 2017/2018**

During the 2017/2018 Financial year interest on outstanding receivables were calculated at a rate of 10% as per the tarriff structure.

**Other Receivables**

**Trade and other receivables pledged as security.**

Trade and other receivables were not pledged as security for overdraft facilities.

## 6. VAT Receivable/(Payable)

| | | |
|---|---|---|
| VAT receivable/(Payable) | (5 800 404) | 6 351 653 |
| | **(5 800 404)** | **6 351 653** |

## 7. Inventories

| | | |
|---|---|---|
| Opening balance | 3 962 196 | 1 845 416 |
| Additions | 2 502 487 | 5 870 258 |
| Issued (expensed) | (4 600 634) | (3 753 478) |
| | **1 864 049** | **3 962 196** |

### 7.1 Inventory to be transfered to Beneficiaries

| | | |
|---|---|---|
| Inventory transfered to Beneficiaries | 246 908 200 | - |
| | **246 908 200** | - |

Inventories comprise of 2546 registered properties which consists of RDP houses, encroached land , residential stands and land agreements with developers.The municipality was required to register the land in her name before the transfers can occur. Currently the municipality is in the process of transffering the inventory to beneficiraies. A register of these properties is maintained by the municipality.

There were no stock written off during the year under review

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

**8. Property, plant and equipment**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 156 778 000 | - | 156 778 000 | 103 | - | 103 |
| Buildings | 384 650 889 | (143 670 215) | 240 980 674 | 376 100 969 | (117 039 993) | 259 060 976 |
| Infrastructure | 294 311 645 | (56 140 729) | 238 170 916 | 272 105 081 | (46 972 149) | 225 132 932 |
| Other and movable assets | 70 647 711 | (29 166 289) | 41 481 422 | 55 694 689 | (23 193 618) | 32 501 071 |
| Lease assets | 1 517 724 | (1 306 929) | 210 795 | 1 517 724 | (801 020) | 716 704 |
| Capital work in progress | 99 292 286 | - | 99 292 286 | 60 326 720 | - | 60 326 720 |
| **Total** | **1 007 198 255** | **(230 284 162)** | **776 914 093** | **765 745 286** | **(188 006 780)** | **577 738 506** |

# Notes to the Annual Financial Statements

Figures in Rand

8. **Property, plant and equipment (continued)**

**Reconciliation of carrying value of property, plant and equipment - 2018**

| | Opening balance | Additions | Disposals | Transfers | Fair value adjustments | Depreciation | Impairment loss/Reversal of impairment | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 103 | - | - | - | 156 777 897 | - | - | 156 778 000 |
| Buildings | 259 060 976 | - | - | 8 549 921 | - | (15 251 961) | (11 378 260) | 240 980 676 |
| Infrastructure | 225 132 931 | - | - | 22 206 565 | - | (9 168 580) | - | 238 170 915 |
| Other and Moveable Assets | 32 501 072 | 15 095 727 | (64 387) | - | - | (6 050 989) | - | 41 481 423 |
| Lease Assets | 716 702 | - | - | - | - | (505 908) | - | 210 795 |
| Capital Work in Progress | 60 326 721 | 69 722 052 | - | (30 756 486) | - | - | - | 99 292 287 |
| | 577 738 505 | 84 817 779 | (64 387) | - | 156 777 897 | (30 977 438) | (11 378 260) | 776 914 096 |

LAND
"The municipality is in the process of registering land in the name of LNLM as the township register for the relevant farm portion was opened at the Deeds Office. Currently the municipality has 103 ERF's of land. 15 portions of farm VOORSPOED 458 registered in the name of the municipality were not registered properly at the Office of the Deeds Registry. In the Land disclosed the Municipality using experts has calculated the extent of the township and withdrawn the extent value from the parent farm and valued the remaining extent from the primarily public service infrastructures and servitudes. The municipality is in the process of deregistering the above properties for proper registration at the Deeds office,

PLEDGED AS SECURITY
No property plant and equipment were pledged as security for any financial liabilities.

APPENDIX B
Refer appendix B for the detailed property plant and equipment schedules.

OTHER INFORMATION
During the financial year usefull life of property, plant and equipment has been reviewed .
The estimated usefull life for certain assets hs been adjusted.
Furter certain assets that were previously recognised as expenditure were capitalised during the financial year.

### 8. Property, plant and equipment (continued)

**Reconciliation of carrying value of property, plant and equipment - 2017**

| | Restated Opening balance | Additions | Donated Assets | Disposals | Transfers | Fair value adjustments | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| Land | - | - | 103 | - | - | - | - | - | 103 |
| Buildings | 281 868 772 | - | - | (36 113) | 14 960 249 | 37 560 | (15 072 784) | (22 696 706) | 259 060 976 |
| Infrastructure | 154 445 557 | 40 931 193 | - | (21 262 015) | 60 362 009 | - | (9 343 814) | - | 225 132 931 |
| Other and Moveable Assets | 31 945 136 | 5 187 196 | 1 708 300 | (1 203 539) | - | - | (5 043 911) | (92 110) | 32 501 072 |
| Lease Assets | 1 222 611 | - | - | - | - | - | (505 908) | - | 716 703 |
| Work in Progress | 92 044 543 | 43 604 435 | - | - | (75 322 257) | - | - | - | 60 326 721 |
| | 561 526 619 | 89 722 824 | 1 708 403 | (22 501 667) | - | 37 560 | (29 966 417) | (22 788 816) | 577 738 506 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 9. Intangible assets

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 401 551 | (380 649) | 20 902 | 401 551 | (353 236) | 48 315 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 9. Intangible assets (continued)

**Reconciliation of intangible assets - 2018**

| | Opening balance | Amortisation | Total |
| --- | --- | --- | --- |
| Computer software, other | 48 315 | (27 413) | 20 902 |
| | | **(27 413)** | **20 902** |

**Reconciliation of intangible assets - 2017**

| | Opening balance | Additions | Amortisation | Total |
| --- | --- | --- | --- | --- |
| Computer software, other | 104 540 | - | (56 226) | 48 315 |

Intangible assets comprise of computer software.

### 10. Payables from exchange transactions

| | 2018 | 2017 |
| --- | --- | --- |
| Trade payables | 85 152 | 1 778 792 |
| Retentions | 23 219 979 | 20 786 977 |
| Leave provision | 7 297 399 | 8 970 312 |
| Bonus provision | 2 389 446 | 2 252 691 |
| Traffic Department | 48 714 | - |
| Other Creditors | 2 884 895 | 3 620 044 |
| CDM Advance Account: R & M | 68 169 | 68 169 |
| Creditors previous year | 11 141 078 | 11 112 132 |
| CDM Creditor | 7 486 064 | 5 655 327 |
| Deposits Various | 119 216 | 105 716 |
| Salary suspense account | 642 | 82 555 |
| Unallocated deposits | 870 424 | 843 527 |
| Traffic department | 740 272 | 788 646 |
| SABS | 199 | 203 |
| Prodiba | 51 745 | 55 300 |
| Road transport management | 88 992 | 49 392 |
| | **56 492 386** | **56 169 783** |

The fair value of trade and other payables approximates their carrying amounts.

### 11. Consumer deposits from Non Exchange Transactions

| | 2018 | 2017 |
| --- | --- | --- |
| Consumer deposits | 1 902 836 | 1 857 836 |

No interest is paid on consumer deposits.

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 12. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| MIG | - | 402 655 |
| LED Learnership | 327 926 | 327 926 |
| Intergrated National Electrification Programme | 6 580 000 | - |
| Finance management grant | 500 000 | - |
| CDM : Halls | 6 135 | 6 135 |
| CDM : Stadium | 300 000 | 300 000 |
| CDM Eradication of Alien Plants | 16 455 | - |
| CDM Integrated Transport plan | 377 307 | 500 000 |
| | **8 107 823** | **1 536 716** |

See note 22 for reconciliation of grants from other spheres of goverment.

**Conditional Grants**

The extent of government grants recognised in the Statement of financial performance relates to the portion of the grant where the conditions have been met

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised as a liability in the Statement of financial position

### 13. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 243 974 | 585 537 |
| - in second to fifth year inclusive | - | 243 974 |
| | 243 974 | 829 511 |
| less: future finance charges | (5 835) | (57 659) |
| **Present value of minimum lease payments** | **238 139** | **771 852** |
| | | |
| **Present value of minimum lease payments due** | | |
| - within one year | 238 137 | 533 714 |
| - in second to fifth year inclusive | - | 238 138 |
| | **238 137** | **771 852** |
| | | |
| Non-current liabilities | - | 238 138 |
| Current liabilities | 238 138 | 533 714 |
| | **238 138** | **771 852** |

The average lease term is 3 years and the average implicit borrowing rate is 9.75%. The leases have fixed repayment terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

# Notes to the Annual Financial Statements



## 14. Provisions

**Reconciliation of provisions - 2018**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Environmental rehabilitation | 4 462 983 | 225 435 | 4 688 418 |
| Long service awards | 3 265 094 | 461 985 | 3 727 079 |
| | **7 728 077** | **687 420** | **8 415 497** |

**Reconciliation of provisions - 2017**

| | Opening Balance | Additions | Utilised during the year | Reduction due to payments made | Total |
|---|---|---|---|---|---|
| Environmental rehabilitation | 7 154 957 | - | (2 691 974) | (1 677 564) | 4 462 983 |
| Long service awards | 2 676 033 | 589 061 | - | - | 3 265 094 |
| | **9 830 990** | **589 061** | **(2 691 974)** | **(1 677 564)** | **7 728 077** |

**Long service awards**

| | 2018 | 2017 |
|---|---|---|
| Opening balance | 3 265 094 | 2 676 033 |
| Current service cost | 432 501 | 398 219 |
| Interest cost | 271 145 | 216 447 |
| Benefits vesting | (241 661) | (96 095) |
| Actuarial Loss / (Gain) | - | 70 490 |
| | **3 727 079** | **3 265 094** |

**Enviromental rehabilitation**

| | 2018 | 2017 |
|---|---|---|
| Opening balance | 4 462 983 | 7 154 957 |
| Provision for rehabilitation | 225 435 | (2 691 974) |
| Provision for the year | - | - |
| Unused amounts reversed | - | - |
| Unwinding of discount | - | - |
| Other | - | - |
| | **4 688 418** | **4 462 983** |

**Environmental rehabilitation provision**

The provision is made in terms of the licensing stipulations. The Provision has been determined on the basis of the recent independent study.

The cost factors derived from the study by a consulting firm of engineers have been applied in the 2016/2017 financial year, a 5.2 % increase was applied in the 2017/2018 financial years as additions.The total closure and rehabilitation are uncertain.

**Long Service Award**

Employees qualify for the following long service awards in terms of the SALGA collective agreement: The employees will qualifies for long service award for every five years of service completed , from ten years of service to 45 years of services.

In the month that each "Completed Service" milestone is reached, the employee is granted a long service award. Working days awarded are value at 1/250 of annual salary per day.

Actuarial report was compiled by ARCH Actuarial Consulting appointed by the Council

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 15. Service charges

| | | |
|---|---|---|
| Refuse Removal(Lebowakgomo) | 6 670 759 | 6 117 667 |
| Landfill proceeds | 64 528 | 221 961 |
| | **6 735 287** | **6 339 628** |

## 16. Finance income

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest receivable - Accounts receivable | 5 135 173 | 14 260 695 |
| Interest receivables - External investments | 6 910 186 | 12 501 032 |
| Interest receivables - Current account | 21 966 | 16 282 |
| | **12 067 325** | **26 778 009** |

## 17. Agency Fees

| | | |
|---|---|---|
| Licences and permits :Department of Transport | 4 335 159 | 4 392 648 |
| | **4 335 159** | **4 392 648** |

## 18. Rental of facilities and equipment

| | | |
|---|---|---|
| **Facilities and equipment** | | |
| Rental of Communication Network | 227 689 | 233 887 |
| Rental of Facilities | 99 654 | 77 868 |
| Rental of equipment | 19 307 | 84 412 |
| Rental of Facilities | 169 561 | 195 370 |
| | **516 211** | **591 537** |

## 19. Water and Sanitation:Commission Earned

| | | |
|---|---|---|
| Commission received from sale of water | 24 836 618 | 32 277 572 |
| | **24 836 618** | **32 277 572** |

The commission received from Capricorn District Municipality for the collection of revenue relating to water and sanitation on behalf of the District Municipality. The current signed SLA allows Lepele-Nkumpi to receive 30% of the revenue collected during the current year whilst in the previous years the municipality was receiving 50% of the revenue collected.

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 20. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 10 421 180 | 12 694 271 |
| Commercial | 5 264 900 | 6 789 967 |
| State | 6 527 066 | 2 507 511 |
| Small holdings and farms | 2 202 064 | 2 050 364 |
| | **24 415 210** | **24 042 113** |

**Valuations**

| | | |
|---|---|---|
| Residential | 2 618 098 140 | 2 386 512 470 |
| Commercial | 888 679 000 | 762 684 001 |
| State | 2 197 503 100 | 2 442 391 385 |
| Small holdings and farms | 2 871 525 000 | 2 046 178 192 |
| | **8 575 805 240** | **7 637 766 048** |

Valuations on land and buildings are performed every five years. The last valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 21. Other Revenue

| | 2018 | 2017 |
|---|---|---|
| Tender Revenue | 789 314 | 305 551 |
| Application fees: pto - residential | 876 | 3 711 |
| Transfer of property | 64 291 | 82 468 |
| Advertising boards | 134 707 | 145 406 |
| Building plans: bussiness | 177 042 | 80 073 |
| 2.5% commission | 16 180 | 19 402 |
| Reservation of graves | 4 500 | 4 500 |
| Burial fees | 116 004 | 32 746 |
| Fair Value | - | 37 560 |
| Building plans : Residential | 103 871 | 60 015 |
| Connection fees: water | 70 810 | 26 667 |
| Skills development program | 135 677 | 100 100 |
| Application fees: pto - bussiness | 10 547 | 4 825 |
| Cattle Pound | 36 665 | 218 751 |
| Reconnection fees | 380 | - |
| Insurance reimbursements | - | 381 710 |
| Donations | - | 1 708 300 |
| Rubble | 842 | - |
| Consolidation fees | 1 843 | - |
| Disconnection fees | 263 | - |
| Drain blockage | 4 526 | 2 868 |
| Rezoning application | 2 397 | 1 658 |
| Connection sewerage fees | 1 391 | 526 |
| Instructor certificate | 1 278 | 780 |
| Clearance certificate | 29 926 | 32 853 |
| Sale of Sites | 78 985 | 175 172 |
| Proof of residence | 98 232 | 91 836 |
| Special consent | 5 026 | 877 |
| Stop Cock | 1 567 | 1 447 |
| Mortgage Bonds | 7 172 | 14 477 |
| Sundry Income | 776 220 | 30 698 |
| Relocations of Beacons | 12 259 | 8 553 |
| Library Services | 2 055 | 1 673 |
| | **2 684 846** | **3 575 203** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 22. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 212 141 656 | 202 532 621 |
| Finance management Grant | 1 645 000 | 1 810 000 |
| EPWP | 1 160 000 | 1 295 000 |
| CDM Eradication of Alien Plants | 2 173 545 | 2 225 680 |
| Government grant (operating) 6 | 122 693 | - |
| CDM Waste Management (Cleaning) | 350 000 | 807 645 |
| Government grant (operating) 11 | 30 | - |
| | **217 592 924** | **208 670 946** |

| | | |
|---|---|---|
| **Capital grants** | | |
| Municipal Infrastructural Grant | 54 088 163 | 36 699 345 |
| | **271 681 087** | **245 370 291** |

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### Finance Management Grant

| | | |
|---|---|---|
| Current-year receipts | 2 145 000 | 1 810 000 |
| Conditions met - transferred to revenue | (1 645 000) | (1 810 000) |
| **Unspent amount transferred to liabilities** | **500 000** | **-** |

Conditions still to be met - remain liabilities (see note 12).

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003.

The conditions of the grant were met. No funds have been withheld.

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 22. Government grants and subsidies (continued)

**Municipal Infrastructure Grant (MIG)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 402 656 | 15 859 477 |
| Current-year receipts | 53 134 000 | 37 102 000 |
| Conditions met - transferred to revenue | (54 088 163) | (36 699 345) |
| Withheld | (402 656) | (15 859 477) |
| Other transfered to debtors | 954 163 | - |
| **Unspent amount transferred to liabilities** | - | **402 655** |

Conditions still to be met - remain liabilities (see note 12). The grant were overspend and the municipality is currently liasing with COGTA to recover the overexpenditure.

This grant were used to construct municipal infrastructure to provide basic services for the benefit of poor households.

The conditions of the grant were met..

**Intergrated National Electrification Programme**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 4 830 144 |
| Current-year receipts | 6 580 000 | - |
| Other | - | (4 830 144) |
| **Unspent amount transferred to liabilities** | **6 580 000** | **-** |

Conditions still to be met - remain liabilities (see note 12).

This grant were used to construct municipal infrastructure to provide basic services for the benefit of poor households. The grant were recieved late and expenditure will be incurred during 2018/2019 fin year.

**LED Learnership**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 327 926 | 327 926 |
| **Unspent amount transferred to liabilities** | **327 926** | **327 926** |

Conditions still to be met - remain liabilities (see note 12).

**EPWP**

| | | |
| --- | --- | --- |
| Current-year receipts | 1 160 000 | 1 295 000 |
| Conditions met - transferred to revenue | (1 160 000) | (1 295 000) |
| **Unspent amount transferred to liabilities** | **-** | **-** |

Conditions were met. No unpend grant remain. (see note 12).

**CDM:Refurbishment of Mamaolo Hall**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 6 135 | 6 135 |
| **Unspent amount transferred to liabilities** | **6 135** | **6 135** |

Conditions still to be met - remain liabilities (see note 12).

**CDM:Seleteng Diamond Softball**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 300 000 | 300 000 |

Lepelle Nkumpi Municipality
Annual Financial Statements
for the year ended 30 June 2018

## Accounting Policies

Ø the amount of revenue can be measured reliably;

"Ø it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;"

Ø the stage of completion of the transaction at the reporting date can be measured reliably; and

"Ø the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by.

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

"Ø It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and"

Ø The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.10 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

## Accounting Policies

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified. Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality. When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

**Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

**Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.11 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

## Accounting Policies

### 1.12 Provisions and contingencies

Provisions are recognised when:

Ø the municipality has a present obligation as a result of a past event;

"Ø it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and"

Ø a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditure for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision. No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

Ø the amount that would be recognised as a provision; and

Ø the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

### 1.13 Unauthorised expenditure

Unauthorised expenditure means:

Ø overspending of a vote or a main division within a vote;

"Ø expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division."

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Accounting Policies

### 1.14 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), The Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.16 Translation of foreign currencies

**Foreign currency transactions**

A foreign currency transaction is recorded, on initial recognition in Rand's, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rand's by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow

### 1.17 Comparative figures

**Current year comparatives**

Budgeted amounts have been included in the statement of comparison of budget and actual amounts for the current financial year only.

**Prior year comparatives**

When presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### 1.18 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

**Finance leases – lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

## Accounting Policies

**Operating leases – lessor**

Operating lease income is recognised as an income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

**Operating leases – lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

### 1.19 Non-current assets held for sale

Non-current assets are classified as "held for sale assets" if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is depreciated (or amortised) while it is classified as a "held for sale" asset.

Interest and other expenses attributable to the liabilities of the "held for sale assets" are recognised in surplus or deficit.

### 1.20 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon. A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

Ø the period of time over which an asset is expected to be used by the municipality; or

"Ø (b) the number of production or similar units expected to be obtained from the asset by the

municipality."

**Identification**

## Accounting Policies

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired. The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

**Basis for estimates of future cash flows**

In measuring value in use the municipality:

Ø base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

Ø base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

Ø estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

**Composition of estimates of future cash flows**

Estimates of future cash flows include:

Ø projections of cash inflows from the continuing use of the asset;

Ø projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

Ø net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

Ø cash inflows or outflows from financing activities; and

Ø income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

**Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

## Accounting Policies

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

Ø the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

"Ø the future cash outflows used to determine the value in use of any other assets or cash-generating

units that are affected by the internal transfer pricing."

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified. The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit.

The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

Ø its fair value less costs to sell (if determinable);

Ø its value in use (if determinable); and

Ø zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit. Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that noncash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

**Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a re-valued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment

losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

# Accounting Policies

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

Ø its recoverable amount (if determinable); and

"Ø the carrying amount that would have been determined (net of amortisation or depreciation) had no

impairment loss been recognised for the asset in prior periods."

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

**Re-designation**

The re-designation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

**1.21 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

"Ø the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or"

Ø the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

Ø an entity's decision to terminate an employee's employment before the normal retirement date; or

Ø an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment. Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

Ø wages, salaries and social security contributions;

"Ø short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;"

## Accounting Policies

"Ø bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and"

"Ø non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees."

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

"Ø as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and"

"Ø as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset."

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

**Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

"Ø as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and"

"Ø as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset."

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of each reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

## Accounting Policies

"Ø the remaining assets of the fund are sufficient to meet all the related employee benefit obligations

of the plan or the reporting municipality; or"

Ø the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies. The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

Ø the present value of the defined benefit obligation at the reporting date;

"Ø minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;"

Ø plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

Ø the amount determined above; and

"Ø the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money."

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date. The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

Ø current service cost;

Ø interest cost;

Ø the expected return on any plan assets and on any reimbursement rights;

Ø actuarial gains and losses;

## Accounting Policies

Ø past service cost;

Ø the effect of any curtailments or settlements; and

Ø the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

"Ø the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until"

"Ø the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases."

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

Ø any resulting change in the present value of the defined benefit obligation; and

Ø any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices). When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled. The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

Ø estimated future salary increases;

Ø the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and

## Accounting Policies

Ø estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

Ø those changes were enacted before the reporting date; or

Ø past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Pension Obligations: The municipality and its employees contribute to 4 different Pension Funds, of which 2 (The Municipal Employees Pension Fund and Municipal Gratuity Fund) cater for the majority of the staff. Municipal Employees Pension Fund, Municipal Gratuity Fund and National Fund for Municipal Workers are defined benefit funds. The Municipal Councillors Pension Fund are defined contribution funds.

The schemes are funded through payments to financial consultant companies or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### 1.22 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.23 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

Ø Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.

Ø Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

Ø expenditures for the asset have been incurred;

Ø borrowing costs have been incurred; and

Ø activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.21. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised as an expense in the period in which they are incurred.

# Accounting Policies

### 1.24 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

### 1.27 Grants in aid

The Lepelle-Nkumpi Municipality transfers money to individuals, institutions and organisations. When making these transfers, The Municipality does not: Receive any goods or services directly in return, as would be expected in a purchase or sale transaction Expect to be repaid in future; or Expect a financial return, as would be expected from an investment These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

### 1.28 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

Ø the period of time over which an asset is expected to be used by the municipality; or

"Ø the number of production or similar units expected to be obtained from the asset by the municipality."

**Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired. The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

**Value in use**

Value in use of an asset is the present value of the asset's remaining service potential.

# Accounting Policies

The present value of the remaining service potential of an asset is determined using the following approach:

**Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

**Restoration cost approach**

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

**Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a re-valued non-cash-generating asset is treated as a revaluation decrease. When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

# Accounting Policies

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Re-designation**

The re-designation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

**1.29 Presentation of Budget Information in the Financial Statements**

The Municipality shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

Ø the approved and final budget amounts;

Ø the actual amounts on a comparable basis; and

Ø by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

Ø are prepared using the same basis of accounting i.e. either cash or accrual;

Ø include the same activities and entities;

Ø use the same classification system; and

Ø are prepared for the same period.

**1.30 Heritage Assets**

**Recognition of Assets**

Heritage assets is recognised when it has a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset is further recognised as an asset only if:

Ø it is probable that future economic benefits or service potential associated with the asset will to the municipality; and

Ø the cost of fair value of the asset can be measured reliably.

**Subsequent Measurement**

Heritage asset is measured at its cost value and should it be acquired through a non-exchange transaction will it be measured at its fair value as at the date of acquisition and is carried at its cost less any accumulated impairment losses.

# Accounting Policies

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus and is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit and is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Although a heritage asset is not depreciated is the heritage asset assess at each reporting date to disclose whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

The municipality will treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. Should any item of property, plant and equipment or an intangible asset carried at a re-valued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a re-valued amount, the entity applies the applicable Standard to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard relating to that asset. Transfer of investment property carried at fair value, or inventories to heritage assets at a re-valued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

**Item use Full Life**

| | |
|---|---|
| Property and building – | Indefinite |
| Other Assets - | 5 to 50 years |

**De-recognition of Asset**

The carrying amount of a heritage is de-recognised:

Ø on disposal, or

Ø when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the de-recognition, of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

**1.31 Value Added Tax (VAT)**

The municipality accounts for Value Added Tax on the cash basis.

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

**GRAP 18: Segment Reporting - Issued March 2005**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 20: Related Party – Issued June 2011**

Related party relationships exist throughout the public sector, because:

(a) The Municipalities is subject to the overall direction of an executive government or Council and ultimately, parliament , and operate together to achieve the policies of the government.

(b) The Municipality conduct activities necessary for the achievement of different parts of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence

(c) Public entities enter into transactions with other government entities on a regular basis, and

(d) Ministers, councillors or other elected or appointed members of the government and other members of management can exert significant influence over the operations of an entity.

The mere existence of related party relationships means that one party can control, jointly control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may give one party an advantage at the expense of another. Therefore the disclosure of related party transactions, outstanding balances, and the relationship underlying those transactions is necessary for accountability purposes.

Management could hold positions of responsibility within an entity and therefore members of management will be responsible for the strategic direction and operational management of an entity and are entrusted with significant authority. However, their responsibilities may enable them to influence the benefits of office that flow to them, or their related parties or parties that they represent on the governing body.

Close members of the family of persons related to the entity may influence, or be influenced by them in their transactions with the entity.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operation.

# Accounting Policies

At present the impact of the standard is not material..

**GRAP 105: Transfer of Functions between Entities under Common Control – Issued November 2010**

"The compliance to the standard would have no effect on the present presentation of the Annual Financial Statement. However should in the future it be necessary to transfer functions between entities under common control will the accounting policy be amended to cater for such transfer."

**GRAP 106: Transfer of Function between Entities Not Under Common Control – Issued November 2010**

"The compliance to the standard would have no effect on the present presentation of the Annual Financial Statement. However should in the future it be necessary to transfer functions between entities not under common control will the accounting policy be amended to cater for such transfer."

**GRAP 107: Mergers – Issued November 2010**

"The compliance to the standard would have no effect on the present presentation of the Annual Financial Statement. However should in the future there be a merger between entities will the accounting policy be amended to cater for such merger transactions and disclosure."

These accounting policies are consistent with the previous period.

### 1.32 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

# Accounting Policies

### 1.32 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

# Accounting Policies

### 1.32 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.33 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

## Accounting Policies

### 1.33 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|---|---|
| Patents, trademarks and other rights | x years / indefinite |
| Brand names | x years |
| Licenses and franchises | x years |
| Computer software, internally generated | x years |
| Computer software, other | x years |
| Intangible assets under development | x years |
| Intangible assets 1 | x years |
| Intangible assets 2 | x years |
| Other intangible assets | x years |
| | x years |

### 1.34 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Lepelle Nkumpi Municipality
Annual Financial Statements
for the year ended 30 June 2018

## General Information

**Members of the council**

| | |
|---|---|
| Mayor | Sibanda-Kekana NG |
| Speaker | Ntsoane PB |
| Chief whip | Thobejane TA |
| | |
| Members of the Executive Committee | Mogashoa A |
| Members of the Executive Committee | Ramokolo MM |
| Members of the Executive Committee | Makgati MA |
| Members of the Executive Committee | Mphahlele RL |
| Members of the Executive Committee | Mphofela SM |
| Members of the Executive Committee | Tsela FD |
| Members of the Executive Committee | Maluleke HD |
| Members of the Executive Committee | Themane MD |
| Members of the Executive Committee | Mphahlele MTR |
| | |
| Members | Makgahlele MB |
| Members | Marema TG |
| Members | Takalo PS |
| Members | Mabula RO |
| Members | Thobejane TA |
| Members | Thobejane TC |
| Members | Shogole MW |
| Members | Ledwaba CS |
| Members | Ratau IG |
| Members | Rababalela SM |
| Members | Maleka PI |
| Members | Molaba RG |
| Members | Seribishane KG |
| Members | Thobejane L |
| Members | Mphuti T |
| Members | Kgokolo RD |
| Members | Ntshabeleng PS |
| Members | Mailula LM |
| Members | Mphahlele LL |
| Members | Mohlala PM |
| Members | Mamosebo MJ |
| Members | Tlabjane JB |
| Members | Mphahlele TJ |
| Members | Mmotla MN |
| Members | Moganedi VM |
| Members | Mollo MI |
| Members | Babile PT |
| Members | Kutumela MF |
| Members | Mvundela SW |
| Members | Nkuna FM |
| Members | Ledwaba JL |
| Members | Moletjana ML |
| Members | Ledwaba PE |
| Members | Phele RS |

# Lepelle Nkumpi Municipality
(Registration number LIM 355)
Annual Financial Statements for the year ended 30 June 2018

## General Information

| | |
|---|---|
| Members | Masemola S |
| Members | Thindisa DM |
| Members | Ledwaba RL |
| Members | Kgweedi MM |
| Members | Morotoba NL |
| Members | Doubada NN |
| Members | Choung CM |
| Members | Takalo ME |
| Members | Lekoana MR |
| Members | Leshilo GK |
| Members | Petje LT |
| Members | Ntswane MR |
| Members | Ramoshaba RS |
| Members | Mathabatha TB |
| Members | Matsimela MD |
| **Acting Municipal Manager** | M A MONYEPAO |
| **Acting Chief Financial Officer** | MR RH RAMUHULU |
| **Registered office** | Lebowakgomo |
| **Business address** | 170 BA<br>Civic Centre<br>Lebowakgomo<br>0737 |
| **Postal address** | Private Bag X07<br>Chuenespoort<br>0745 |
| **Bankers** | First National Bank (FNB) |
| **Auditors** | Auditor-General |

## Index

## Accounting Officer Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I am responsible for the preparation of these annual financial statements, which are set out on pages s 5 to 80, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act.

M.A Monyepao
Acting Municipal Manager

# Statement of Financial Position as at 30 June 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 7 | 248 772 249 | 3 962 196 |
| Receivables from exchange transactions | 4 | 30 917 630 | 35 630 533 |
| Receivables from non-exchange transactions | 5 | 38 698 150 | 30 889 818 |
| VAT receivable | 6 | - | 6 351 653 |
| Cash and cash equivalents | 3 | 58 429 524 | 187 415 041 |
| | | **376 817 553** | **264 249 241** |
| Non-Current Assets | | | |
| Property, plant and equipment | 8 | 776 914 093 | 577 646 754 |
| Intangible assets | 9 | 20 902 | 48 314 |
| | | **776 934 995** | **577 695 068** |
| **Total Assets** | | **1 153 752 548** | **841 944 309** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Finance lease obligation | 13 | 238 138 | 533 714 |
| Payables from exchange transactions | 10 | 56 492 386 | 56 741 712 |
| Consumer deposits | 11 | 1 902 836 | 1 857 836 |
| VAT payable | 6 | 5 732 874 | - |
| Unspent conditional grants and receipts | 12 | 8 107 823 | 1 536 716 |
| | | **72 474 057** | **60 669 978** |
| Non-Current Liabilities | | | |
| Finance lease obligation | 13 | - | 238 138 |
| Provisions | 14 | 8 415 497 | 7 728 077 |
| | | **8 415 497** | **7 966 215** |
| **Total Liabilities** | | **80 889 554** | **68 636 193** |
| **Net Assets** | | **1 072 862 996** | **773 308 119** |
| Accumulated surplus | | 1 072 862 996 | 773 308 119 |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 15 | 6 735 287 | 6 339 628 |
| Rental of facilities and equipment | 18 | 516 211 | 591 537 |
| Water and Sanitation:Commission Earned | 19 | 24 836 618 | 32 277 572 |
| Agency Fees : Licences and permits | 17 | 4 335 159 | 4 392 648 |
| Other Revenue | 21 | 2 684 846 | 3 575 203 |
| Finance Income | 16 | 12 067 325 | 26 778 009 |
| **Total revenue from exchange transactions** | | **51 175 446** | **73 954 597** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 20 | 24 415 210 | 24 042 113 |
| **Transfer revenue** | | | |
| Government grants and subsidies received - operating | 22 | 217 592 924 | 208 670 946 |
| Government grants and subsidies received - capital | 22 | 54 088 163 | 36 699 345 |
| Traffic Fines | | 940 665 | 3 010 935 |
| **Total revenue from non-exchange transactions** | | **297 036 962** | **272 423 339** |
| **Total revenue** | | **348 212 408** | **346 377 936** |
| **Expenditure** | | | |
| Employee related costs | 23 | (88 086 792) | (83 926 044) |
| Remuneration of councillors | 25 | (20 883 393) | (18 270 498) |
| Provision for Bad Debts CDM | 24 | (26 510 134) | (14 121 693) |
| Provision for Bad Debts | 24 | (16 021 132) | (24 292 973) |
| Depreciation, Impairment and amortisation | 26 | (42 383 062) | (54 077 607) |
| Impairment Investment | 24 | (150 000 000) | - |
| Finance costs | | (51 824) | (201 278) |
| Repairs and Maintenance | | (6 470 093) | (7 732 304) |
| Contracted services | 27 | (18 007 831) | (11 641 909) |
| Free Basic Services: Electricity | | (8 310 495) | (7 980 118) |
| Loss on disposal of assets and liabilities | | (64 387) | (21 129 086) |
| General Expenses | 29 | (75 554 590) | (88 933 308) |
| **Total expenditure** | | **(452 343 733)** | **(332 306 818)** |
| **(Deficit) surplus for the year from continuing operations** | | **(104 131 325)** | **14 071 118** |
| Fair Value on Land | 41 | 403 686 200 | - |
| **Surplus for the year** | | **299 554 875** | **14 071 118** |

## Lepelle Nkumpi Municipality

(Registration number LIM 355)
Annual Financial Statements for the year ended 30 June 2018

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
| --- | --- | --- |
| Opening balance as previously reported at 30 June 2015 | 975 587 365 | 975 587 365 |
| Correction of prior period errors | (216 350 362) | (216 350 362) |
| Balance 01 July 2016 | 759 237 003 | 759 237 003 |
| Surplus for the year | 14 071 118 | 14 071 118 |
| **Restated* Balance at 01 July 2017** | **773 308 121** | **773 308 121** |
| Surplus for the year | 299 554 875 | 299 554 875 |
| **Balance at 30 June 2018** | **1 072 862 996** | **1 072 862 996** |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 303 486 148 | 250 548 633 |
| Investment Interest Income | 16 | 12 067 325 | 26 778 009 |
| | | 315 553 473 | 277 326 642 |
| **Payments** | | | |
| Employees and Suppliers | | (359 197 968) | (257 632 117) |
| Finance costs | | (51 824) | (201 278) |
| | | (359 249 792) | (257 833 394) |
| **Net cash flows from operating activities** | 30 | **(43 696 319)** | **19 493 248** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (84 817 779) | (89 510 829) |
| Proceeds from sale of property, plant and equipment | 8 | 64 387 | 1 310 618 |
| **Net cash flows from investing activities** | | **(84 753 392)** | **(88 200 211)** |
| **Cash flows from financing activities** | | | |
| (Decrease) in non-current liabilities | | (533 714) | (533 714) |
| Increase in current liabiliteis | | - | 50 546 |
| **Net cash flows from financing activities** | | **(533 714)** | **(483 168)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(128 983 427)** | **(69 190 131)** |
| Cash and cash equivalents at the beginning of the year | | 187 412 952 | 256 603 083 |
| **Cash and cash equivalents at the end of the year** | 3 | **58 429 525** | **187 412 952** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 7 248 795 | - | **7 248 795** | 6 735 287 | **(513 508)** | 7 % |
| Rental of facilities and equipment | 1 037 297 | - | **1 037 297** | 516 211 | **(521 086)** | Note 39.1 |
| Interest received (trading) | 4 451 216 | 2 521 642 | **6 972 858** | 5 135 173 | **(1 837 685)** | Note 39.2 |
| Interest Earned -external investments | 14 018 089 | - | **14 018 089** | 6 910 186 | **(7 107 903)** | Note 39.5 |
| Agency Fees | 6 277 400 | 18 919 719 | **25 197 119** | 29 171 777 | **3 974 658** | Note 39.3 |
| Fines, penalties and forfeits | 9 304 170 | (7 932 189) | **1 371 981** | - | **(1 371 981)** | |
| Other revenue | 196 966 226 | (8 554 552) | **188 411 674** | 2 684 846 | **(185 726 828)** | Note 39.4 |
| **Total revenue from exchange transactions** | **239 303 193** | **4 954 620** | **244 257 813** | **51 153 480** | **(193 104 333)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 22 662 875 | - | **22 662 875** | 24 415 210 | **1 752 335** | 7.73% |
| **Transfer revenue** | | | | | | |
| Government grants and subsidies received - operating | 218 524 926 | 600 000 | **219 124 926** | 217 592 924 | **(1 532 002)** | -1% |
| Government grants and subsidies received - capital | 65 271 000 | (5 557 000) | **59 714 000** | 54 088 163 | **(5 625 837)** | -9% |
| Traffic Fines | - | - | - | 940 665 | **940 665** | |
| **Total revenue from non-exchange transactions** | **306 458 801** | **(4 957 000)** | **301 501 801** | **297 036 962** | **(4 464 839)** | |
| **Total revenue** | **545 761 994** | **(2 380)** | **545 759 614** | **348 190 442** | **(197 569 172)** | |
| **Expenditure** | | | | | | |
| Employee related costs | (91 794 725) | (4 893 122) | **(96 687 847)** | (88 086 792) | **8 601 055** | |
| Remuneration of councillors | (26 320 067) | - | **(26 320 067)** | (20 883 393) | **5 436 674** | Note 39.6 |
| Depreciation and amortisation | (31 000 000) | (5 000 000) | **(36 000 000)** | (42 383 062) | **(6 383 062)** | Note 39.9 |
| Finance costs | (60 000) | - | **(60 000)** | (51 824) | **8 176** | |
| Bad debts | (23 604 767) | (5 413 090) | **(29 017 857)** | (192 531 266) | **(163 513 409)** | Note 39.8 |
| Contracted Services | (76 081 796) | (12 333 816) | **(88 415 612)** | (18 007 831) | **70 407 781** | Note 39.10 |
| Other Materials | (16 560 440) | 8 465 989 | **(8 094 451)** | (6 470 093) | **1 624 358** | Note 39.11 |
| General Expenses | (60 711 726) | (2 881 321) | **(63 593 047)** | (83 865 085) | **(20 272 038)** | Note 39.12 |
| **Total expenditure** | **(326 133 521)** | **(22 055 360)** | **(348 188 881)** | **(452 279 346)** | **(104 090 465)** | |
| **Operating deficit** | **219 628 473** | **(22 057 740)** | **197 570 733** | **(104 088 904)** | **(301 659 637)** | |
| Fair value adjustments | - | - | - | 403 683 641 | **403 683 641** | |
| **Nett Surplus / (Deficit)** | **219 628 473** | **(22 057 740)** | **197 570 733** | **299 594 737** | **102 024 004** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 2 500 000 | - | **2 500 000** | 248 772 566 | **246 272 566** | |
| Receivables from exchange transactions | 335 721 305 | - | **335 721 305** | 30 917 630 | **(304 803 675)** | |
| Receivables from non-exchange transactions | 29 507 625 | - | **29 507 625** | 38 698 150 | **9 190 525** | |
| Cash and cash equivalents | 133 944 083 | - | **133 944 083** | 58 429 524 | **(75 514 559)** | |
| | **501 673 013** | - | **501 673 013** | **376 817 870** | **(124 855 143)** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 1 012 638 291 | - | **1 012 638 291** | 776 914 096 | **(235 724 195)** | |
| Intangible assets | - | - | - | 20 902 | **20 902** | |
| | **1 012 638 291** | - | **1 012 638 291** | **776 934 998** | **(235 703 293)** | |
| **Total Assets** | **1 514 311 304** | - | **1 514 311 304** | **1 153 752 868** | **(360 558 436)** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | 533 714 | - | **533 714** | 238 138 | **(295 576)** | |
| Payables from exchange transactions | 41 039 058 | - | **41 039 058** | 56 492 386 | **15 453 328** | |
| Consumer deposits | 1 800 000 | - | **1 800 000** | 1 902 836 | **102 836** | |
| Unspent conditional grants and receipts | - | - | - | 8 107 823 | **8 107 823** | |
| | **43 372 772** | - | **43 372 772** | **66 741 183** | **23 368 411** | |
| **Non-Current Liabilities** | | | | | | |
| Provisions | 531 864 | - | **531 864** | 8 415 497 | **7 883 633** | |
| **Total Liabilities** | **43 904 636** | - | **43 904 636** | **75 156 680** | **31 252 044** | |
| **Net Assets** | **1 470 406 668** | - | **1 470 406 668** | **1 078 596 188** | **(391 810 480)** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 1 228 000 691 | - | **1 228 000 691** | 1 072 795 584 | **(155 205 107)** | |
| **Total Net Assets** | **1 228 000 691** | - | **1 228 000 691** | **1 072 795 584** | **(155 205 107)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Sale of goods and services | 382 410 402 | - | **382 410 402** | 303 486 148 | **(78 924 254)** | |
| Investment Interest income | 18 469 306 | - | **18 469 306** | 12 067 325 | **(6 401 981)** | |
| | **400 879 708** | - | **400 879 708** | **315 553 473** | **(85 326 235)** | |
| **Payments** | | | | | | |
| Emplyees and Suppliers | (271 468 754) | - | **(271 468 754)** | (359 197 968) | **(87 729 214)** | |
| Finance costs | (60 000) | - | **(60 000)** | (51 824) | **8 176** | |
| | **(271 528 754)** | - | **(271 528 754)** | **(359 249 792)** | **(87 721 038)** | |
| **Net cash flows from operating activities** | **129 350 954** | - | **129 350 954** | **(43 696 319)** | **(173 047 273)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (219 628 475) | - | **(219 628 475)** | (84 817 779) | **134 810 696** | |
| Proceeds from sale of property, plant and equipment | 5 337 000 | - | **5 337 000** | 64 387 | **(5 272 613)** | |
| **Net cash flows from investing activities** | **(214 291 475)** | - | **(214 291 475)** | **(84 753 392)** | **129 538 083** | |
| **Cash flows from financing activities** | | | | | | |
| Finance lease payments | - | - | - | (533 714) | **(533 714)** | |
| Net increase/(decrease) in cash and cash equivalents | (84 940 521) | - | **(84 940 521)** | (128 983 425) | **(44 042 904)** | |
| Cash and cash equivalents at the beginning of the year | 217 184 604 | - | **217 184 604** | 187 412 952 | **(29 771 652)** | |
| **Cash and cash equivalents at the end of the year** | **132 244 083** | - | **132 244 083** | **58 429 527** | **(73 814 556)** | |
| **Reconciliation** | | | | | | |

The final budget and financial statements were both prepared on an accrual basis. See Note:41 for explanation of significant variances greater than 10%

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 22 662 875 | - | 22 662 875 | - | | 22 662 875 | 24 415 210 | | 1 752 335 | 108 % | 108 % |
| Service charges | 7 248 795 | - | 7 248 795 | - | | 7 248 795 | 6 735 287 | | (513 508) | 93 % | 93 % |
| Investment revenue | 18 469 305 | 2 521 642 | 20 990 947 | - | | 20 990 947 | 12 067 325 | | (8 923 622) | 57 % | 65 % |
| Transfers recognised - operational | 218 524 926 | 600 000 | 219 124 926 | - | | 219 124 926 | 217 592 924 | | (1 532 002) | 99 % | 100 % |
| Other own revenue | 213 585 093 | 2 432 978 | 216 018 071 | - | | 216 018 071 | 436 997 140 | | 220 979 069 | 202 % | 205 % |
| **Total revenue (excluding capital transfers and contributions)** | **480 490 994** | **5 554 620** | **486 045 614** | **-** | | **486 045 614** | **697 807 886** | | **211 762 272** | **144 %** | **145 %** |
| Employee costs | (91 794 725) | (4 893 122) | (96 687 847) | - | - | (96 687 847) | (88 086 792) | - | 8 601 055 | 91 % | 96 % |
| Remuneration of councillors | (26 320 067) | - | (26 320 067) | - | - | (26 320 067) | (20 883 393) | - | 5 436 674 | 79 % | 79 % |
| Debt impairment | (23 604 767) | (5 413 090) | (29 017 857) | | | (29 017 857) | (192 531 266) | - | (163 513 409) | 663 % | 816 % |
| Depreciation and asset impairment | (31 000 000) | (5 000 000) | (36 000 000) | | | (36 000 000) | (42 383 062) | - | (6 383 062) | 118 % | 137 % |
| Finance charges | (60 000) | - | (60 000) | - | - | (60 000) | (51 824) | - | 8 176 | 86 % | 86 % |
| Other expenditure | (153 353 962) | (6 749 148) | (160 103 110) | - | - | (160 103 110) | (108 915 313) | - | 51 187 797 | 68 % | 71 % |
| **Total expenditure** | **(326 133 521)** | **(22 055 360)** | **(348 188 881)** | **-** | **-** | **(348 188 881)** | **(452 851 650)** | **-** | **(104 662 769)** | **130 %** | **139 %** |
| **Surplus/(Deficit)** | **154 357 473** | **(16 500 740)** | **137 856 733** | **-** | | **137 856 733** | **244 956 236** | | **107 099 503** | **178 %** | **159 %** |

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 65 271 000 | (5 557 000) | 59 714 000 | - | | 59 714 000 | 54 088 163 | | (5 625 837) | 91 % | 83 % |
| Surplus (Deficit) after capital transfers and contributions | 219 628 473 | (22 057 740) | 197 570 733 | - | | 197 570 733 | 299 044 399 | | 101 473 666 | 151 % | 136 % |
| Surplus/(Deficit) for the year | 219 628 473 | (22 057 740) | 197 570 733 | - | | 197 570 733 | 299 044 399 | | 101 473 666 | 151 % | 136 % |
| **Capital expenditure and funds sources** | | | | | | | | | | | |
| Total capital expenditure | (219 628 474) | 22 057 740 | (197 570 734) | - | | (197 570 734) | 84 817 779 | | 282 388 513 | (43)% | (39)% |

## Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005. These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Compound instruments

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

**Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value Management have made estimates of the selling price and direct cost to sell on certain inventory items.

The write down is included in the impairment of assets note.

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the municipality is the current bid price. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply and demand, together with economic factors such as exchange rates, inflation and interest rates.

## Accounting Policies

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 19 - Provisions.

**Useful lives**

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and intangible assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. In the event that assets are fair valued, the useful lives of these assets is the estimated remaining useful life on takeon date.

**Post-retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

**Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.2 Presentation of Currency

These annual financial statements are presented in South African Rand which is the functional currency of the municipality.

### 1.3 Going concern assumption

In terms of the accounting standard GRAP 1 paragraphs 27 to 30 the annual financial statements are prepared on a going concern basis. The assumption is based on the fact that the municipality may invoke its power to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

### 1.4 Investment property

"Investment property is property (land or a building, or part of a building, or both) held to earn rentals for capital appreciation or both, rather that for:

- use in the production or supply of goods or services, or for
- administrative purposes, or
- sale in the ordinary course of operations."

Investment property is recognised as an asset when, its is probable that the future eceonimc benefors or service potential that are associated with the investment property will flow to the mnicipality and the cost or fair value of the investment property can be measured relaibly.

**Initial Recognition:**

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

**Subsequent Measurement:**

Investment property is measured at fair value. After initial recognition all investment property is measured at fair value at each Statement of financial position date. No depreciation is calculated on these properties.

| Item | Useful life |
|---|---|
| Property - land | indefinite |
| Property - buildings | 5 - 50 years |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service are expected from its disposal

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and trhe carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and"
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition. Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

# Accounting Policies

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at re-valued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

**Subsequent Measurement:**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:-

| Item | Useful life |
| --- | --- |
| Land | Indefinite |
| Buildings | 10 - 30 years |
| **Infrastructure** | |
| - Roads | 10 - 100 years |
| - Electricity | 5 - 80 years" |
| **Other assets** | |
| - Machniery and equipment | 2 - 15 years |
| - Furniture and equipment | 5 - 15 years |
| - Computer equipment | 5 - 10 years |
| - Vehicles | 7 - 15 years" |

In the event that assets are fair valued, the useful lives of those assets is the estimated remaining useful life on takeon date.

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method are reviewed at least at every reporting date.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the de-recognition of an item of intangible assets is included in surplus or deficit when the items derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in the Statement of Financial Performance.

## 1.6 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance and recognised when:

## Accounting Policies

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|---|---|
| Computer software | 5 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.7 Inventories

Inventories are measured at the lower of cost and net realisable value.

# Accounting Policies

The cost at reporting date comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Unsold properties are at the lower cost and net realisable value. Direct cost are accumulated for each separately identifiable development. Cost also includes a portion of the overhead costs.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates

De-recognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, (see the Standard of GRAP on Revenue from Exchange

Transactions) transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

## Accounting Policies

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

Ø deliver cash or another financial asset to another entity; or

"Ø exchange financial assets or financial liabilities under conditions that are potentially unfavourable to

the entity."

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

Ø the entity designates at fair value at initial recognition; or

Ø are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

Ø derivatives;

Ø combined instruments that are designated at fair value;

Ø instruments held for trading. A financial instrument is held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or

- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;

- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and

- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

**Classification**

## Accounting Policies

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

**Class Category**

- Cash and cash equivalents
- Financial asset measured at amortised cost
- Trade and other receivables from non-exchange transactions
- Financial asset measured at amortised cost."
- Trade and other receivables from exchange transactions Financial asset measured at amorstised cost
- Long term receivables Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

- Long term liabilities Financial liability measured at amortised cost
- Trade and other payables Financial liability measured at amortised cost

**Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value]. The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately.

The entity accounts for that part of a concessionary loan that is:

"Ø a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or"

"Ø non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non exchange Transactions (Taxes and Transfers), where it is the recipient of the loan."

**Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

Ø Financial instruments at fair value.

Ø Financial instruments at amortised cost.

Ø Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Fair value measurement considerations**

## Accounting Policies

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

Ø combined instrument that is required to be measured at fair value; or

Ø an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value.

This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

**Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit. For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

**Impairment and un-collectability of financial assets**

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

**Financial assets measured at amortised cost:**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

# Accounting Policies

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

**De-recognition**

**Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

Ø the contractual rights to the cash flows from the financial asset expire, are settled or waived;

"Ø the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or"

"Ø the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:"

- derecognise the asset; and

- recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for de-recognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for de-recognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in de-recognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

**Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

**Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit. Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the entity does not offset the transferred asset and the associated liability.

### 1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

"Ø the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;"

Ø the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably;

Ø it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and

Ø the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

Lepelle Nkumpi Municipality
Annual Financial Statements
for the year ended 30 June 2018

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|
| **22. Government grants and subsidies (continued)** | | |
| **Unspent amount transferred to liabilities** | **300 000** | **300 000** |

Conditions still to be met - remain liabilities (see note 12).

**CDM Eradication of Alien Plants**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 975 680 |
| Current-year receipts | 2 190 000 | 1 250 000 |
| Conditions met - transferred to revenue | (2 173 545) | (2 225 680) |
| | **16 455** | - |

Conditions still to be met - remain liabilities (see note 12).

**CDM Integrated Transport plan**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 500 000 | 500 000 |
| Conditions met - transferred to revenue | (122 693) | - |
| | **377 307** | **500 000** |

Conditions still to be met - remain liabilities (see note 12).

**CDM Waste Management Cleaning**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 457 645 |
| Current-year receipts | 310 000 | 350 000 |
| Conditions met - transferred to revenue | (350 000) | (807 645) |
| Other transfer to debtors | 40 000 | - |
| | - | - |

Conditions were met and the grant were overspend by R 40 000. This amount is disclosed under debtors. Communication with CDM are currently in process to refund the over expenditure.

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 23. Employee related costs

| | | |
|---|---|---|
| Basic | 59 576 156 | 56 366 937 |
| Bonus | 4 701 301 | 3 879 559 |
| Medical aid - company contributions | 2 805 954 | 2 418 983 |
| UIF | 419 437 | 416 792 |
| SDL | 21 938 | 20 768 |
| Leave pay provision charge | 65 705 | 1 741 795 |
| Pension Funds - Company contribution | 10 354 900 | 9 726 352 |
| Travel, motor car, accommodation, subsistence and other allowances | 5 956 481 | 5 087 006 |
| Overtime payments | 2 611 153 | 3 020 050 |
| Long-service awards | 645 997 | 697 826 |
| Acting allowances | 674 606 | 910 748 |
| Housing benefits and allowances | 253 164 | 237 258 |
| | **88 086 792** | **84 524 074** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 1 011 129 | - |
| Car Allowance | 178 239 | - |
| Acting Allowance | - | 73 643 |
| Other Allowances | 12 000 | - |
| | **1 201 368** | **73 643** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual Remuneration | 872 931 | 819 861 |
| Contributions to UIF, Medical and Pension Funds | - | 39 569 |
| Motor , car and other allowance | 207 098 | 293 097 |
| Other | 148 570 | - |
| | **1 228 599** | **1 152 527** |

**Remuneration of executive directors**

**Director: Techncial Services**

| | | |
|---|---|---|
| Annual Remuneration | 727 179 | 235 215 |
| Contributions to UIF, Medical and Pension Funds | - | 83 704 |
| Travel and other allowance | - | 220 613 |
| Leave pay out | 292 394 | 42 097 |
| | **1 019 573** | **581 629** |

**Director: Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 430 086 | 565 475 |
| Motor , car and other allowance | 160 825 | 134 674 |
| Travel and other allowance | - | 380 858 |
| Leave payout | 86 162 | - |
| | **677 073** | **1 081 007** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 23. Employee related costs (continued)

**Director: Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 633 662 | 34 712 |
| Motor , car and other allowance | 210 068 | 22 911 |
| Travel and other allowance | - | 25 696 |
| Other | 29 042 | - |
| | **872 772** | **83 319** |

**Director: Strategic Planning(LED)**

| | | |
|---|---|---|
| Annual Remuneration | 371 208 | 501 018 |
| Contributions to UIF, Medical and Pension Funds | - | 152 621 |
| Travel and other allowance | 158 162 | 411 336 |
| Leave Payout | 123 830 | - |
| Acting Allowance | 9 753 | - |
| | **662 953** | **1 064 975** |

### 24. Provision for bad debt

| | | |
|---|---|---|
| Provision for bad debt | 15 734 434 | 22 146 997 |
| Provision for bad debt - CDM water | 26 510 134 | 24 354 977 |
| Provision for bad debt - Traffic fines | 286 698 | 2 145 976 |
| Provision for bad debt - VBS | 150 000 000 | - |
| | **192 531 266** | **48 647 950** |

### 25. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 602 462 | 479 461 |
| Chief Whip | 451 847 | 328 136 |
| Speaker | 481 970 | 341 160 |
| Executive Committee Members | 2 870 634 | 2 054 476 |
| Councillors | 5 249 097 | 7 159 590 |
| Councillors' pension and medical aid contributions | 3 943 361 | 3 616 385 |
| Cell phone and other allowances | 6 598 329 | 3 956 815 |
| MPAC and Ethics oversight members | 700 131 | 334 475 |
| | **20 883 393** | **18 270 498** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 25. Remuneration of councillors (continued)

The Mayor, Speaker and Chief Whip are full -time. Each is provided with an office and secretarial support. The Mayor has use of a Council owned vehicle and driver for official duties.

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

| 30 June 2018 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Kgweedi MM | 144 | 425 | 569 |
| Ramokolo MM | 454 | - | 454 |
| Doubada NM | 438 | 5 848 | 6 286 |
| Morotoba NL | 133 | - | 133 |
| | **1 169** | **6 273** | **7 442** |

| 30 June 2017 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Kgweedi MM | 164 | 2 214 | 2 378 |
| Ramokolo MM | 101 | - | 101 |
| Doubada NM | 832 | 23 293 | 24 125 |
| Morotolo NL | 426 | 3 947 | 4 373 |
| Choung CM | 421 | 4 578 | 4 999 |
| Mphahlele LL | 708 | 10 546 | 11 254 |
| | **2 652** | **44 578** | **47 230** |

### 26. Depreciation, impairment and amortisation

| | 2018 | 2017 |
|---|---|---|
| Property, plant and equipment | 30 977 389 | 31 232 565 |
| Intangible assets | 27 413 | 56 226 |
| Impairment of assets | 11 378 260 | 22 788 816 |
| | **42 383 062** | **54 077 607** |

### 27. Contracted services

| | 2018 | 2017 |
|---|---|---|
| Specialist Services | 14 026 920 | 8 326 391 |
| Refuse | 3 980 911 | 3 315 518 |
| | **18 007 831** | **11 641 909** |

### 28. Finance costs

| | 2018 | 2017 |
|---|---|---|
| Interest and Penalties on Vat | - | 42 839 |
| Interest on finance leases | 51 824 | 158 439 |
| | **51 824** | **201 278** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 29. General expenses

| | | |
|---|---|---|
| Accommodation & meals | 2 102 141 | 2 910 548 |
| Advertising | 412 664 | 645 310 |
| Audit committee expenses | 390 944 | 377 733 |
| Audit fees | 3 428 549 | 2 872 950 |
| Bank Charges | 151 149 | 302 463 |
| Cleaning materials | 1 145 576 | 561 292 |
| Commission on sapo/easy pay deposits | 48 780 | 10 939 |
| Unknown Funerals | - | 26 975 |
| Commission Paid | - | 61 963 |
| Cash security services | 169 228 | 235 524 |
| Electronic traffic fines management | 250 000 | - |
| Cattle pound | 275 800 | 102 210 |
| Bursaries : Staff | 189 040 | - |
| Communications | 909 825 | 975 860 |
| Community participation | 1 278 514 | 404 200 |
| Council Conferences and congresses | 32 323 | 113 177 |
| Council: refreshments: mayors office | 5 474 | 1 518 |
| Council Induction | 41 993 | 909 038 |
| Consultants and research fees | 12 643 334 | 18 139 188 |
| Conferences and congresses | 220 674 | 404 200 |
| Council: Function | 238 374 | 332 182 |
| It support services | 298 920 | 722 806 |
| Council: refreshments: speakers office | 9 406 | 2 988 |
| Council: skills development levy | 159 914 | 142 014 |
| Council: travel & subsistance | 1 601 592 | 1 242 120 |
| Council:mpac sessions | 468 072 | 458 772 |
| Greening | 3 468 | 100 |
| Disaster provision | 256 000 | 191 491 |
| Books & periodicals | 31 307 | - |
| Council:refreshments:exco | 953 | 3 149 |
| Idp review processes | 988 796 | 1 490 093 |
| Electricity Accounts | 2 366 510 | 2 326 001 |
| Electricity projects | 10 295 696 | 13 274 450 |
| Environmental and waste management | 245 008 | 21 275 |
| Fleet fuel | 7 577 223 | 2 999 195 |
| Insurance | 1 544 493 | 1 237 001 |
| Postage | 651 463 | 605 517 |
| Printing & stationary | 1 404 760 | 1 418 813 |
| Internal audit services | 78 256 | 4 650 |
| Protective clothing | 751 626 | 826 333 |
| Internal sporting activities | 707 658 | 719 311 |
| Legal fees | 4 478 740 | 2 794 776 |
| Licencing: municipal fleet | 282 993 | 205 232 |
| Membership fees | 1 010 219 | 2 974 951 |
| Office refreshments | 21 790 | 13 881 |
| Ohs expenses | 180 982 | 1 500 |
| Pms coordination | 11 378 | 576 |
| Subscriptions and membership fees | 1 420 111 | 1 306 233 |
| Training | 249 350 | 923 715 |
| Subsistance and travelling allowance | 1 485 936 | 1 255 016 |
| Refuse removal | 2 000 | 1 558 438 |
| Skills development levy | 614 453 | 559 784 |
| Smme support | 604 543 | 331 548 |
| Special programmes | 1 230 909 | 489 724 |
| Sports arts & culture | 223 023 | 321 672 |
| Sector forum | 2 439 | 27 180 |
| Stores & materials | 647 498 | 279 128 |
| Risk management | 45 877 | 93 499 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|
| **29. General expenses (continued)** | | |
| Rental of office equipment | 6 186 | 9 460 |
| Telephone expenses | 862 558 | 877 246 |
| Traffic uniform & tags | 3 439 | - |
| Traffic expenses | 265 660 | 358 785 |
| Loss | - | 9 372 294 |
| Ward committees | 7 361 115 | 5 087 058 |
| Youth programme: campaigns | 297 660 | 293 810 |
| Whippery Office : Refreshments | 4 000 | 2 962 |
| Workmen's Compensation | 362 514 | 2 187 742 |
| Recruitment Expenses | 49 491 | 73 938 |
| Policy development - labour relations | 70 656 | 28 206 |
| Road safety programme | - | 121 590 |
| Employee Wellness | 158 132 | 3 500 |
| Other | - | 306 515 |
| Rehabilitation of old dumping site | 225 435 | - |
| | **75 554 590** | **88 933 308** |

**30. Cash (used in) generated from operations**

| | 2018 | 2017 |
|---|---|---|
| Surplus | 299 554 875 | 3 482 843 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 42 383 062 | 54 077 607 |
| Loss on sale of assets and liabilities | 64 387 | 21 129 087 |
| Fair value adjustments | (403 686 200) | - |
| Interest income | (12 067 325) | - |
| Bad debt provision - CDM | - | 24 292 973 |
| Debt impairment- Traffic fines and debtors | 16 021 132 | 24 354 978 |
| Donation Received - PPE | - | (1 708 300) |
| Contribution to provisions - non current | 687 420 | (2 102 913) |
| Contribution to provisions - current | - | 315 868 |
| **Changes in working capital:** | | |
| Inventories | (2 031 551) | (2 116 779) |
| Receivables from exchange transactions | 4 712 903 | (16 870 733) |
| Receivables from non-exchange transactions | (7 808 332) | (18 786 680) |
| Other receivables from non-exchange transactions | - | (30 932 628) |
| Payables from exchange transactions | 36 639 | (10 893 207) |
| Vat Receivable | 6 211 049 | 324 691 |
| Vat Payable | 5 732 874 | (6 650 066) |
| Unspent conditional grants and receipts | 6 571 107 | (18 458 291) |
| Consumer deposits | (78 359) | 34 800 |
| | **(43 696 319)** | **19 493 250** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 31. Additional disclosure in terms of Section 125 Municipal Finance Management Act Section 2003

**Contribution to SALGA**

| | | |
|---|---|---|
| Current year subscription / fee | 1 010 219 | 889 728 |
| Amount paid - current year | (1 010 219) | (889 728) |
| | - | - |

**Audit fees**

| | | |
|---|---|---|
| Current year subscription / fee | 3 428 697 | 2 872 950 |
| Amount paid - current year | (3 419 261) | (2 872 950) |
| | **9 436** | **-** |

The outstanding audit fees ia part of the creditors accruals for the year and is paid during August 2018.

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 16 039 788 | 10 810 295 |
| Amount paid - current year | (16 039 788) | (10 810 295) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 19 523 348 | 18 261 041 |
| Amount paid - current year | (19 523 348) | (18 261 041) |
| | - | - |

**VAT**

VAT is payable on the cash basis.

VAT output payables and VAT input receivables are shown in note 7.

### 32. Commitments

**Commitments in respect of Capital and Operational Expenditure**

**Approved and contracted for**

| | | |
|---|---|---|
| Authorised capital expenditure | 117 061 548 | 23 535 733 |
| Authorised operational expenditure | 54 013 412 | 49 680 077 |
| | **171 074 960** | **73 215 810** |

**The expenditure will be financed from:**

| | | |
|---|---|---|
| Goverment grants | 26 796 223 | 402 656 |
| Internal sources | 144 278 737 | 72 813 155 |
| | **171 074 960** | **73 215 811** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 33. Deviation from supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

| Incident | 2018 | 2017 |
|---|---|---|
| Sole Supplier | 747 871 | 317 448 |
| Exceptional/Impractical | - | 2 062 209 |
| Emergency | - | 392 972 |
| | **747 871** | **2 772 629** |

### 34. Prior period errors

**STATEMENT OF FINANCIAL PERFORMANCE**

**REVENUE**

| **Property Rates** | |
|---|---|
| Balance previously reported | 23 010 791 |
| Incorrect billing and property reclassification | 1 031 322 |
| | 24 042 113 |

| **Other revenue - skills development program** | |
|---|---|
| Balance previously reported | 53 777 |
| Skills development money incorrectly allocated to unallocated deposit account | 46 323 |
| | 100 100 |

**EXPENDITURE**

| **General expenses - conference & congresses** | |
|---|---|
| Balance previously reported | 382 851 |
| Invoice dated 06/02/2017 not raised as part of accruals but paid in 2017/2018 | 21 349 |
| Orders not cancelled on system | (285 965) |
| | 118 235 |

| **General expenses - Accomodation and meals** | |
|---|---|
| Balance previously reported | 3 570 589 |
| Invoice dated 06/02/2017 not raised as part of accruals but paid in 2017/2018 | 246 442 |
| Subsistence and traveling not raised in 2016/2017 but pid in 2017/2018 | (620 512) |
| | 3 196 519 |

| **General expenses - other** | |
|---|---|
| Balance previously reported | 235 786 |
| Invoice dated 2016/2017 not raised as part of accruals but paid in 2017/2018 | 70 729 |
| | - |
| | 306 515 |

| **General expenses - membership fees** | |
|---|---|
| Balance previously reported | 1 964 732 |
| Salga 2016/2017 membership fees payment not raised during 2016/2017 year and paid in 2017/2018 year | 1 010 219 |
| | - |
| | 2 974 951 |

| **Employee related costs - Overtime** | |
|---|---|
| Balance previously reported | 2 521 134 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

**34. Prior period errors (continued)**

| | | |
|---|---|---|
| Overtime not accrued in 2016/2017 but paid in 2017/2018 | | 498 916 |
| | | 3 020 050 |

**Employee related costs - Penion funds**

| | | |
|---|---|---|
| Balance previously reported | | 9 649 918 |
| Pension not accrued in 2016/2017 but paid in 2017/2018 | | 76 434 |
| | | 9 726 352 |

**Employee related costs - Basic salary**

| | | |
|---|---|---|
| Balance previously reported | | 56 344 257 |
| Repayment of a overpayment of basic salary | | 22 680 |
| | | 56 366 937 |

STATEMENT OF FINANCIAL POSITION

**Property plant and equipment**

| | | |
|---|---|---|
| Balance previously reported | | 769 993 685 |
| Prior year adjustments - Pre 2017 | | (192 346 931) |
| | | 577 646 754 |

**Trade and other Receivables from non-exchange transactions**

| | | |
|---|---|---|
| Balance previously reported | | 21 007 649 |
| Change in terms of GRAP to exchange transactions | | (21 007 649) |
| | | - |

**Payables from exchange transactions**

| | | |
|---|---|---|
| Balance previously reported | | (53 829 630) |
| Invoices i.r.o 2015/2016 not raised as accrual but paid in 2017/2018 fin year | | (35 188) |
| Invoice dated 06/02/2017 not raised as part of accruals but paid in 2017/2018 | | (21 349) |
| Skills development money incorrectly allocated to unallocated deposit account | | (46 323) |
| Invoice dated 06/02/2017 not raised as part of accruals but paid in 2017/2018 | | (246 442) |
| Salga 2016/2017 membership fees payment not raised during 2016/2017 year and paid in 2017/2018 year | | (1 010 219) |
| General expenses Invoice dated 2016/2017 not raised as part of accruals but paid in 2017/2018 | | (70 729) |
| Overtime not accrued in 2016/2017 but paid in 2017/2018 | | (498 916) |
| Pension not accrued in 2016/2017 but paid in 2017/2018 | | (76 434) |
| Subsistence and traveling not raised in 2016/2017 but pid in 2017/2018 | | (620 518) |
| Orders on system not cancelled | | (285 964) |
| | | (56 741 712) |

**Vat receivable**

| | | |
|---|---|---|
| Balance previously reported | | 14 506 745 |
| Accounting for Assessment raised and input previously disallowed | | (322 935) |
| vat on CDM debtors | | (2 877 130) |
| Vat correction done i.r.o previous year before 2016 | | (4 725 869) |
| Adjustment for Vat was done by SARS not in ledger | | (229 158) |
| | | 6 351 653 |

**Cash and cash equivalents**

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 34. Prior period errors (continued)

| | | |
| --- | --- | --- |
| Balance previously reported | | 187 412 956 |
| Reversal of a 2016/2017 stale cheque | | 2 084 |
| | | 187 415 040 |

**Receivables from non-exchange transactions**

| | | |
| --- | --- | --- |
| Balance previously reported | | 28 618 432 |
| Incorrect billing and property reclassification | | (4 560 326) |
| | | 24 058 106 |

**Receivables from exchange transactions**

| | | |
| --- | --- | --- |
| Balance previously reported | | 19 244 406 |
| Reclassify from non-exchange to Exchange transactions | | 21 007 649 |
| CDM - debtors | | (2 350 135) |
| | | 37 901 920 |

**Accumulated Surplus 2016**

| | | |
| --- | --- | --- |
| Balance previously reported | - | 975 587 432 |
| Invoices i.r.o 2015/2016 not raised as accrual but paid in 2017/2018 fin year | - | 35 188 |
| CDM Impairment | - | (10 233 284) |
| Accounting for Assessment raised and input previously disallowed | - | (322 854) |
| CDM - Debtors | - | (4 982 046) |
| Land and other assets | - | (192 379 928) |
| Property rates incorrect billing | - | (3 529 005) |
| CDM Impairment | - | 588 524 |
| orders not cancelled | - | (571 930) |
| Vat correction done i.r.o previous year before 2016 | - | (4 725 869) |
| Adjustment for Vat was done by SARS not in ledger | - | (229 158) |
| | **-** | **759 237 070** |

### 35. Contingencies

| | | |
| --- | --- | --- |
| The contingent liability amount represent the estimated claims against the municipality | 4 110 286 | 33 163 048 |
| | **4 110 286** | **33 163 048** |

During the 2017 finanancial year there was an amount of R25m in respect of a SARS VAT assessment which was later resolved.

### 36. Fruitless and wasteful expenditure

| | | |
| --- | --- | --- |
| Fruitless and wasteful expenditure | 1 982 994 | 1 868 013 |
| Fruitless and wastefull expenditure current year | 4 894 | 114 981 |
| Written off by council | - | - |
| **Fruitless and wastefull expenditure awaiting condonement** | **1 987 888** | **1 982 994** |

The unauthorised expenditure relates to spending above the approved budget.

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 37. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 201 315 167 | 72 085 911 |
| Add: Irregular Expenditure - current year | 71 018 805 | 129 229 256 |
| Less: Amounts condoned/written off by council | - | - |
| **Irregular expenditure awaiting condonement by National Treasury** | **272 333 972** | **201 315 167** |

Irregular Expenditure is inclusive of VAT with an undetermined amount.

## 38. Unauthorised expenditure

| | | |
|---|---|---|
| Unauthorised expenditure | 5 240 632 | 3 854 182 |
| Unauthorised expenditure current year | - | 1 386 450 |
| Written off by council | - | - |
| **Unauthorised expenditure awaiting condonement by National Treasury** | **5 240 632** | **5 240 632** |

## 39. Budget differences

### 39.1 Rental of Facilities and Equipment

Rental of Municipal Building decreased significantly as a compared to the previous financial year , especially the civic hall. The reason were mainly due to inconsistent supply with in the municipality which effected the use of the ablution facilities .

### 39.2 Interest earned -outstanding debtors

Reversal of billing as a result of reduction in property value as per the valuer' s recomendations.

### 39.3 Agency Fees-Licences & permits

The reduction of Commision is a result of the signed WSP/WSA agreement, 2016/2017 % commision was 50% and currently 30%

### 39.4 Other revenue

The other revenue includes budget of R184 236697.00 of accumulated surplus funds from the previous years.

### 39.5 Interest earned- External investment

The municipality has made 100% provision for bad debt on the investment at VBS. The indications are there that the recovery of the investment are highly uncertain.

### 39.6 Remuneration of councillors

Councillors upper limits percentile increase less than the budget percentile increases . The upper limits were approved after the approval of the budget..

### 39.7 Debt impairment

Impairment of VBS Investment In terms of GRAP 104, the municipality had invested R 150m with VBS Mutual Bank but

due to the financial difficulty the bank found itself and the fact that it is uncertain wether the municipality will receive the investment back or not. The munucipality decided to impair the R150m invested with VBS

### 39.8 Depreciation and amortisation expense

Completed assets are more than anticipated completed assest during both thte original and adjusted budget.
n

### 39.9 Contracted Services

Appoinmnet of service providers to assist with the feasibility studies for the construction of Roads and Stormwater projects did not materialise when the user department decided they were not necassary as the projects to be constructed were less complicated and did not require feasibilty studies.

### 39.10 Other materials

Procurement for building related to Repairs & Maintenance were still in progress at the end of the financial year..

# Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 39. Budget differences (continued)

### 39.11 General expenses

Late apppointment of service provider for reticulation of household..

## 40. Events after the reporting date

A municipal building of Mafefe Tourism Camp burnt down on the 26th of September 2018.

The total asset carrying value amount as at 30 June 2018 is R 6 630 195 related to the Mafefe Tourism camp.

This has not been adjusted in the financial statements

## 41. Fair value adjustments

| | 2018 | 2017 |
|---|---|---|
| Fair Value on land | 403 683 641 | - |

The land that was donated on the 6th of January 2005 by Public Works to the municipality at a deemed value of R1 each were fair valued in the current financial year. A valuation of land was done by an independent valuer. The valuation, which conforms to international standards, was arrived at by reference to market evidence of transaction prices for similar properties.

## 42. Financial Instruments disclosure

**Categories of financial instruments**

| **Financial Assets** | Classification | 2018 | 2017 |
|---|---|---|---|
| **Investments** | | | |
| Short term deposits | Held to maturity | - | - |
| **Consumer Debtors** | | | |
| Trade receivables from exchange transactions | Financial instruments at amortised cost | 30 917 630 | 35 630 533 |
| Receivables from non exchange transactions | Financial instruments at amortised cost | 38 698 150 | 30 889 818 |
| Call Deposits | Financial instruments at amortised cost | 46 911 313 | 173 151 390 |
| **Bank Balances and Cash** | | | |
| Cash Floats and Advances | Financial instruments at amortised cost | 5 195 | 12 562 |
| **Summary of Financial Assets** | - | **116 532 288** | **239 684 303** |

| **Financial Liability** | Classification | 2018 | 2017 |
|---|---|---|---|
| **Long-term Liabilities** | | | |
| **Trade Payables** | | | |
| Trade Creditors | Financial instruments at amortised cost | 56 492 386 | 56 741 712 |
| **Bank Balances and Cash** | | | |
| Bank Balances | Financial instruments at amortised cost | 58 429 524 | 187 415 041 |
| **Current Portion of Long-term Liabilities** | | | |
| Annuity Loans | Financial instruments at amortised cost | - | - |
| Capatalised Lease Liability | Financial instruments at amortised cost | 238 138 | 533 714 |
| **Summary of Financial Liability** | - | **115 160 048** | **244 690 467** |

# Notes to the Annual Financial Statements



## 43. Risk Management

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| At 30 June 2018 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| --- | --- | --- | --- | --- |
| Trade and other payables | 56 492 386 | - | - | - |

| At 30 June 2017 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| --- | --- | --- | --- | --- |
| Trade and other payables | 56 741 712 | - | - | - |

### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The credit quality of receivables are further assessed by grouping individual debtors into different categories with similar risk profiles. The categories include the following: Bad Debt, Deceased, Good payers, Slow Payers, Government Departments, Debtors with Arrangements, Indigents, Municipal Workers, Handed over to Attorneys and Untraceable account. These categories are then impaired on a group basis based on the risk profile/credit quality associated with the group.

Balances past due not impaired:

| Non-Exchange Receivables | 2018 Percentage | 2018 Amount | 2017 Percentage | 2017 Amount |
| --- | --- | --- | --- | --- |
| Rates | 100,00% | 63 350 309 | 100,00% | 58 353 976 |
| | **100** | **63 350 309** | **100** | **58 353 976** |

| Exchange Receivables | 2018 Percentage | 2018 Amount | 2017 Percentage | 2017 Amount |
| --- | --- | --- | --- | --- |
| Refuse | 37.11% | 102 726 962 | 42.52% | 89 574 433 |
| Other | 62.89% | 65 190 512 | 57.48% | 16 386 128 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 43. Risk Management (continued)

| | | | | |
|---|---|---|---|---|
| | **100** | **167 917 474** | **100,00%** | **105 960 561** |

No receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carrying value disclosed in note & of the financial statements is an approximation of its fair value. Interest on overdue balances (rates) are included at 10% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

| **Non-Exchange Receivables** | 2018 Percentage | 2018 Amount | 2017 Percentage | 2017 Amount |
|---|---|---|---|---|
| Rates | 100% | 66 491 330 | 100,00% | 60 956 002 |
| | **100** | **66 491 330** | **100** | **60 956 002** |

| **Exchange Receivables** | 2018 Percentage | 2018 Amount | 2017 Percentage | 2017 Amount |
|---|---|---|---|---|
| Refuse | 100% | 49 308 677 | 100% | 39 109 571 |
| | **100%** | **49 308 677** | **100,00%** | **39 109 571** |

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only enters into non-current investment transactions with major banks with high quality credit standing. Although the credit risk pertaining to non-current investments are considered to be low, the maximum exposure are disclosed below.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

**Interest rate risk**

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

**Foreign exchange risk**

The municipality does not engage in foreign currency transactions.

**Price risk**

The municipality is not exposed to price risk

The municipality does not hedge foreign exchange fluctuations.